



## Notes to Financial Statements (Cont'd)

31 December 2002

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, properties, fixed assets and investments (collectively as “goods and investments”), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and investments sold;
- (b) rental and royalty income, on a time proportion basis over the lease/contract terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

#### *Continuing operations*

- (a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacture industry in Hong Kong and Mainland China;
- (b) the merchandise trading segment purchases commodities from overseas and sells to customers in Mainland China;



## Notes to Financial Statements *(Cont'd)*

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### 4. SEGMENT INFORMATION (Cont'd)

#### *Continuing operations (Cont'd)*

- (c) the property investment segment invests in residential and commercial properties in Hong Kong and Mainland China for rental income purpose; and
- (d) the corporate and other segment mainly comprises the Group's corporate income and expense items.

#### *Discontinued operations*

- (a) the leather ware products manufacture and distribution segment produces leather ware products in Mainland China and sells them mainly in Hong Kong; and
- (b) the packaging materials manufacture and distribution segment produces and distributes packaging materials in Mainland China.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment transactions mainly represented management services, rental expenses and guarantees provided and charged by the Company to its subsidiaries at the bases determined by the Group.



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

2002	Leather processing HK\$'000	Merchandise trading HK\$'000	Property investment HK\$'000	Leather ware products manufacture and distribution (Discontinued) HK\$'000	Packaging materials manufacture and distribution (Discontinued) HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:								
Sales to external customers	412,759	90,329	-	17,665	8,302	-	-	529,055
Intersegment sales	-	-	-	-	-	652	(652)	-
Other revenue (excluding exchange gains/(losses), net)	1,121	3,900	2,181	2,308	-	113	-	9,623
Exchange gains/(losses), net	(222)	(297)	-	(42)	-	2	-	(559)
Total	<u>413,658</u>	<u>93,932</u>	<u>2,181</u>	<u>19,931</u>	<u>8,302</u>	<u>767</u>	<u>(652)</u>	<u>538,119</u>
Segment results	<u>(164,693) *</u>	<u>(24,562)</u>	<u>(1,668)</u>	<u>(439)</u>	<u>(89)</u>	<u>(7,978)</u>	<u>-</u>	<u>(199,429)</u>
Interest income								438
Loss from operating activities								(198,991)
Finance costs								(6,387)
Share of losses of associates	-	-	-	-	-	-	-	-
Loss before tax								(205,378)
Tax								-
Minority interests								177
Net loss from ordinary activities attributable to shareholders								<u>(205,201)</u>

\* The balance included an impairment of goodwill amounting to HK\$133,349,000 in respect of the Group's acquisition of Nanhai Tannery & Leather Products Co., Ltd. (Note 15).



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments (Cont'd)

#### Group

2001

	Leather processing HK\$'000	Merchandise trading HK\$'000	Property investment HK\$'000	Leather ware products manufacture and distribution (Discontinued) HK\$'000	Packaging materials manufacture and distribution (Discontinued) HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:								
Sales to external customers	470,312	241,260	-	31,358	21,999	-	-	764,929
Intersegment sales	-	-	-	-	-	1,170	(1,170)	-
Other revenue (excluding exchange gains/(losses), net)	866	246	1,810	2,391	-	260	-	5,573
Exchange gains/(losses), net	5,197	(243)	-	(163)	-	(56)	-	4,735
Total	<u>476,375</u>	<u>241,263</u>	<u>1,810</u>	<u>33,586</u>	<u>21,999</u>	<u>1,374</u>	<u>(1,170)</u>	<u>775,237</u>
Segment results	<u>5,375</u>	<u>12,557</u>	<u>(11,827)</u>	<u>(48,664) *</u>	<u>(9,524)</u>	<u>(12,778)</u>	<u>-</u>	<u>(64,861)</u>
Interest income								2,290
Loss from operating activities								(62,571)
Finance costs								(15,221)
Share of losses of associates	-	(18)	(136)	-	-	-	-	(154)
Loss before tax								(77,946)
Tax								88
Minority interests								5,575
Net loss from ordinary activities attributable to shareholders								<u>(72,283)</u>

\* The balance included an impairment of goodwill amounting to HK\$21,919,000 in respect of the Group's acquisition of Alpha Universal Limited.



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments (Cont'd)

#### Group

2002

	Leather processing HK\$'000	Merchandise trading HK\$'000	Property investment HK\$'000	Leather ware products manufacture and distribution (Discontinued) HK\$'000	Packaging materials manufacture and distribution (Discontinued) HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment assets	449,652	2,964	34,377	-	-	5,765	(10,132)	482,626
Unallocated assets								1,023
Total assets								483,649
Segment liabilities	(79,626)	(2,475)	(632)	-	-	(2,684)	10,132	(75,285)
Unallocated liabilities								(122,928)
Total liabilities								(198,213)
Other segment information:								
Capital expenditure	15,039	-	-	342	4	91	-	15,476
Depreciation	15,294	46	-	358	-	377	-	16,075
Amortisation	-	-	-	700	-	-	-	700
Impairment of fixed assets	1,493	-	-	-	-	-	-	1,493
Impairment of trademarks	-	-	-	-	-	-	-	-
Impairment of an investment in an associate	-	-	-	-	-	-	-	-
Revaluation deficit on investment properties	-	-	2,938	-	-	-	-	2,938
Revaluation deficit on leasehold land and buildings	556	-	-	-	-	-	-	556
Other non-cash expenses	11,930	29,169	-	-	133	506	-	41,738
Impairment of goodwill	133,349	-	-	-	-	-	-	133,349



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments (Cont'd)

#### Group

2001

	Leather processing HK\$'000	Merchandise trading HK\$'000	Property investment HK\$'000	Leather ware products manufacture and distribution (Discontinued) HK\$'000	Packaging materials manufacture and distribution (Discontinued) HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment assets	391,160	111,621	33,505	25,682	7,902	13,116	(9,921)	573,065
Unallocated assets								1,066
Total assets								574,131
Segment liabilities	(39,401)	(7,298)	(271)	(10,760)	(1,734)	(2,975)	9,921	(52,518)
Unallocated liabilities								(161,066)
Total liabilities								(213,584)
Other segment information:								
Capital expenditure	9,568	13	-	989	174	177	-	10,921
Depreciation	16,836	240	-	2,001	670	795	-	20,542
Amortisation	-	-	-	1,400	-	-	-	1,400
Impairment of fixed assets	8,559	-	-	7,125	3,733	-	-	19,417
Impairment of trademarks	-	-	-	4,100	-	-	-	4,100
Impairment of an investment in an associate	-	-	907	-	-	-	-	907
Revaluation deficit on investment properties	-	-	7,499	-	-	-	-	7,499
Revaluation deficit on leasehold land and buildings	353	917	-	8,112	-	2,288	-	11,670
Other non-cash expenses	11,796	3	4,817	3,671	2,767	104	-	23,158
Impairment of goodwill	-	-	-	21,919	-	-	-	21,919



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

#### Group

2002	Mainland China HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	502,274	16,248	10,533	–	529,055
Other revenue (excluding exchange gains/(losses), net)	2,321	3,402	3,900	–	9,623
Exchange gains/(losses), net	(200)	(149)	(210)	–	(559)
Total	<u>504,395</u>	<u>19,501</u>	<u>14,223</u>	<u>–</u>	<u>538,119</u>
Other geographical information:					
Segment assets	446,599	36,856	1,211	(2,040)	482,626
Unallocated assets					1,023
Total assets	<u></u>	<u></u>	<u></u>	<u></u>	<u>483,649</u>
Capital expenditure	<u>15,043</u>	<u>433</u>	<u>–</u>	<u>–</u>	<u>15,476</u>



# Notes to Financial Statements (Cont'd)

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## 4. SEGMENT INFORMATION (Cont'd)

### (b) Geographical segments (Cont'd)

#### Group

2001	Mainland China HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	695,776	67,387	1,766	–	764,929
Other revenue (excluding exchange gains/(losses), net)	4,034	1,506	33	–	5,573
Exchange gains/(losses), net	4,993	(215)	(43)	–	4,735
Total	<u>704,803</u>	<u>68,678</u>	<u>1,756</u>	<u>–</u>	<u>775,237</u>
Other geographical information:					
Segment assets	422,893	151,860	309	(1,997)	573,065
Unallocated assets					<u>1,066</u>
Total assets	<u></u>	<u></u>	<u></u>	<u></u>	<u>574,131</u>
Capital expenditure	<u>9,737</u>	<u>1,184</u>	<u>–</u>	<u>–</u>	<u>10,921</u>





## Notes to Financial Statements (Cont'd)

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### 5. TURNOVER AND REVENUE

#### *Continuing:*

Turnover from continuing operations represents gross proceeds received and receivable on the processing and sale of leathers and the gross invoiced revenue arising from general merchandise trading, net of goods returned, trade discounts and value-added tax, during the year.

#### *Discontinued:*

Turnover from discontinued operations includes revenue from the manufacture and distribution of leather ware products and packaging materials, net of goods returned, trade discounts and value-added tax, during the year.

Revenue from the following activities has been included in turnover.

	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>		
<i>Continuing:</i>		
Processing and sale of leathers	412,759	470,312
Sale of merchandise	90,329	241,260
	<hr/>	<hr/>
	503,088	711,572
	<hr/>	<hr/>
<i>Discontinued:</i>		
Manufacture and distribution of leather ware products	17,665	31,358
Sale of packaging materials	8,302	21,999
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	25,967	53,357
	<hr/>	<hr/>
	<u>529,055</u>	<u>764,929</u>



# Notes to Financial Statements *(Cont'd)*

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## 5. TURNOVER AND REVENUE (Cont'd)

	2002 HK\$'000	2001 HK\$'000
<b>Other revenue</b>		
<i>Continuing:</i>		
Rental income	2,416	1,999
Interest income	429	1,951
Gain from settlement of a litigation	3,900	–
Others	999	1,183
	<hr/>	<hr/>
	7,744	5,133
	<hr/>	<hr/>
<i>Discontinued:</i>		
Royalty income	500	1,500
Interest income	9	339
Gain on disposal of a subsidiary	550	–
Others	622	891
	<hr/>	<hr/>
	1,681	2,730
	<hr/>	<hr/>
	<u>9,425</u>	<u>7,863</u>



## Notes to Financial Statements *(Cont'd)*

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### 6. DISCONTINUED OPEARTIONS

- (a) Disposal of the Group's entire 60% interest in Alpha Universal Limited ("Alpha Universal")

In June 2002, the Company entered into a conditional sales and purchases agreement with an independent third party for the disposal of the Group's entire 60% interest in Alpha Universal and its subsidiaries (the "Alpha Universal Group") at HK\$6,596,000 (net of expenses). The Alpha Universal Group principally operates the Group's leather ware products manufacture and distribution business.

In July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and resulted in a gain of HK\$636,000 in the current year. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Company and the Group's leather ware products manufacture and distribution business was then discontinued.

- (b) Discontinued operation of Xuzhou Gangwei Colour Package Co., Ltd ("Xuzhou Gangwei")

In June 2002, the Company negotiated with the staff of Xuzhou Gangwei for the compensation payments in respect of the decision of the board of directors of Xuzhou Gangwei to discontinue its packaging materials manufacture and distribution operations and lease certain of its plant and machinery to an independent third party. Xuzhou Gangwei commenced to lease its plant and machinery on 30 June 2002 and the discontinuation of packaging materials manufacture and distribution operations was then completed.

The discontinuation of the packaging materials manufacture and distribution business is consistent with the Group's strategy to concentrate on its leather processing business.

In connection with the decision to discontinue the packaging materials manufacture and distribution business, the Group incurred compensation payments to staff of HK\$552,000.